

Now, Senator Glass, you look at me askance. I can understand why you are looking at me in amazement, but it happened. Please remember also that in connection with the \$700,000 I referred to, the "conspirators" or "looters" divided amongst themselves \$116,000 for commissions and what not. I suppose as I saw it, and I hope not unfairly, it was a reward for theft. I cannot figure it out in any other way.

Well, now, the Continental Securities Corporation, in the hands of the people that got it, had more things to do, because they not only depleted the portfolio to the extent of \$700,000 but did other things. So someone among them conceived the idea, in their quest for the acquisition of investment trusts, that there was another corporation, known as Administered Fund, 2d, which had a portfolio of about \$4,000,000. The securities were deposited with a trust company in Jersey City, I think the Commercial Trust Co. but I am trying not to mention names as I do not think there is anything to be gained by that in this inquiry, unless you direct me to do so, and I hope you will not, and of course the Commercial Trust Co. did its duty—but a lawyer and a member of the stock exchange had organized Administered Fund, 2d, and contemporaneous with its organization had also organized a company known as Capital Administration—no, I mean Corporate Administration. That is a correction, and I hope it will be the only correction. Well, Corporate Administration agreed, being the same people, for 6 percent of the value of the portfolio to pay all expenses involved in the sale of Administered Fund, 2d shares, and that they would also provide investment counsel. I think they put some money into Corporate Administration, but the venture was not a success. Corporate Administration was losing money, was worthless from my viewpoint, and I think from anybody else's.

But in the portfolio of Administered Fund, 2d, there were \$4,000,000 of securities, held by 330,000 investors who invested, naturally, in small amounts.

At a time when the ownership of Corporate Administration was entirely at a loss, and at a time when all the securities were with the trust company, the representatives of those whom I referred to as "looters" or "conspirators"—and one may take one's choice as to name—went to the lawyer and a member of the exchange, and offered them \$250,000 for the ownership of Corporate Administration, which from the viewpoint of dollars and cents was losing money. They must have that at that time if they are to have control of Corporate Administration, and having the management of the affairs of Administered Fund, 2d, they could then freely play with the portfolio, as they had played with the portfolio of Continental Securities Corporation up to the extent as I have stated.

Well, they obtained ownership of the shares. An agreement was drafted whereby the directors of Administered Fund, 2d, should get out and they should come in. But someone was wise enough probably to speak out, that sale of control is one thing and sale of directorships another. At any rate, when the \$250,000 was paid over, the majority of the directors of Administered Fund, 2d, resigned and new men went in. A week or two later the lawyer also resigned, and now you find the "looters" and "conspirators" in control of Administered Fund, 2d.

Evidently they were impressed with the idea, for some reason or other, that this being an open-end trust, and the securities being with

the trust company, they could not play havoc with the securities because a percentage of those securities were left alone. But the \$250,000 to acquire this worthless Corporate Administration was taken out of the treasury of Continental Securities Corporation, plus \$104,000 which was divided amongst the "looters" or "conspirators" or their representatives. I suppose a premium to them of \$104,000, for depriving the stockholders of Continental Securities Corporation of the \$250,000, which was taken out of the treasury to pay for that. So to my mind the Corporate Administration——

Senator WAGNER (interposing). The \$104,000 was also taken?

Mr. COOK. Yes, sir. That is \$354,000. Now, you have the \$700,000 that are gone with the snows of yesteryear; the \$700,000 and you have \$354,000 more. Well, I suppose ambition is entitled to its reward, and so the gentlemen who engineered in behalf of the "conspirators" and "looters", this Corporate Administration deal, got busy with the Reynolds Investing Co., which was one of the things you mentioned in your letter to me, Senator Wagner, when you said you wanted me to come and that you wished you might have me speak about it.

Senator WAGNER. Yes.

Mr. COOK. We have always felt, and I am glad to see that that is in the proposed bill, that with an investment trust there is the obligation that the directors, trustees, fiduciaries, or what not, owe to stockholders. While ordinarily there is nothing in the law as I see it, certainly up to the present time, which would forbid the holders of a majority of the stock of any corporation selling it, I am satisfied that under the bill that cannot be accompanied with the sale of that which they want to sell, that is, control and the election of an entirely new board of directors with respect to which no stockholder is advised, and with respect to which no stockholder can vote yes or no. So that overnight those who had been the shepherds, if I may use that term, disappeared, and somebody new and unknown to the stockholders, sat in the seats of the mighty.

Now, the Reynolds Investing Co. had outstanding approximately \$3,400,000 of debentures, \$991,000 of preferred stock—and right there Mr. Ross corrects me. I said the dividend arrears of Continental Securities Corporation preferred stock were \$33. They were \$29.

There was outstanding 1,700,000 shares of common stock, the common stock alone voting, of the Reynolds Investing Co. The controlling group that ran the Reynolds Investing Co., announced when the company was formed, their interest in it and what they were going to do, and so forth. But I do not want to go too far, nor go into too much detail, because we have some litigation pending in New York, and I would not want to try to usurp the duty of the judge who has to pass upon the right and the wrong of it; so if I do become here too much of the advocate, forgive me.

The assets of the Reynolds Investing Co. were just about sufficient to take care of the principal of the debentures outstanding, the par of the preferred stock outstanding, and the amount of dividends in arrears.

From the viewpoint of asset value so far as we have been able to determine, and I think that is in the report of the S. E. C., the common stock had little or no value. It was selling I think on the curb or at some place or other, as frequently happens. Even concerns in receivership, with little hope for the future, find some kind of market, at \$1 or \$2 or \$3 a share, probably made or manipulated by somebody

or other. But I think I am well within the facts when I say there was little or no value to the Reynolds Investing Co., Inc., common stock shares.

These people that I have characterized come along and offer to the then directors of Reynolds Investing Co., through a banking house in New York, \$2,110,000 for 1,055,000 shares at \$2 a share.

Well, I suppose one can ask: Where is the \$2,110,000 to come from? We all know they did not have it. But with the wrongful genius I suppose that was able to do what was done here, they made up their minds they could procure it.

So a contract was made for the purchase of those 1,055,000 shares, worth \$2,110,000, and it finally is assigned to the Continental Securities Corporation. And, of course, with amenable directors—and “amenable” in any way one wants to term that word—Continental Securities Corporation was to acquire control of this other investment trust, Reynolds Investing Co.

I hope I am making clear what was done. If I am not, any questions won't disturb me, Senators.

Senator DOWNEY. Then I would like to ask a question right there. About what time was this?

Senator HUGHES. I understood it was in 1937.

Senator DOWNEY. Was it in October?

Mr. COOK. From October of 1937 to the end of 1937; yes, sir.

Senator WAGNER. In modern times.

Senator HUGHES. Yes; in the second period of prosperity.

Mr. COOK. Well, I do not know, Senator, what the period was. I have given my thought and interest to the fact that things were done which in our opinion should not have been done. And that is why if I may say it—and not speaking for your entire bill, Mr. Chairman, because I do not want to talk about the entire bill, and I am not sufficiently competent to speak about the entire bill, but with reference to the provisions of the bill to prevent the happening of the things I am speaking about—I think they are wisely wrought. If they had been in the law and one was not forced to fashion a new control, such as I think, and I hope I am not immodest in saying, our trustee tried to do, all these things would not have taken place.

Senator GLASS. Well, were they legally done?

Mr. COOK. Senator Glass, we say “No.”

Senator GLASS. What has been done with the looters?

Mr. COOK. Some of the looters were brought before the district attorney in New York, indicted, and a trial had. Those that were brought there were acquitted, but—

Senator HUGHES (interposing). What were they indicted for?

Mr. COOK. They were indicted for the larceny of \$700,000. But they were acquitted, Senator Glass.

Senator HERRING. Mr. Chairman, I wonder if the witness could speak louder. We cannot hear a thing down here at this end of the table.

Mr. COOK. I am terribly sorry. Is there any part of what I have said that you gentlemen down there did not hear and that you want me to repeat?

Senator HERRING. No. I think it would be much easier to try to tell you what we did hear. But go ahead from that point.

Senator WAGNER. I think you were about at the point of telling us where that \$2,110,000 came from.

Mr. COOK. At the time I was answering Senator Glass about the indictment. Senator Glass, there was a trial in the Federal court for mail fraud and conspiracy, and the jury there convicted, but only some of those I have called "looters." There is another proceeding pending in the Federal court, I suppose on a broader indictment, against some of those I have called "looters," and I assume that is receiving the attention of the United States attorney.

Senator HUGHES. The court did find they had violated the law then. Senator Glass' question was whether it was lawful or not.

Mr. COOK. I had thought that the State action should result in conviction. The judge, after the jury came in, said, as occasionally judges are obliged to do—and if I am wrong I know the chairman will correct me, because we had the honor of him sitting on our Supreme Court in New York—the judge trying that case called it a miscarriage of justice, but the jury had brought in its verdict.

Senator GLASS. What was done with the jury?

Senator HUGHES. It was scolded, no doubt.

Mr. COOK. Senator Glass, I think the jury should have been turned over to your tender mercies and sense of justice. Now, what was I speaking about?

Senator WAGNER. You were speaking of the \$2,110,000 used to purchase a controlling interest in the Reynolds Investing Co., and where that came from.

Mr. COOK. If I do not speak loud enough please remind me. I have not anything of the ability of Mr. Graham McNamee.

I believe I spoke about the \$2,110,000 offered for the 1,055,000 shares of Reynolds Investing Co. stock, and said something about where it was to come from and how it was to be provided. I believe I also called attention to the fact that the contract ultimately was assigned to Continental Securities Corporation, so that the Continental Securities Corporation, an investment trust, itself would acquire the majority of the shares of another investment company.

There was taken out of the treasury, or the portfolio, call it whatever you please, in order to put through this transaction, \$1,106,000, I mean from the Continental Securities Corporation. The contract with the Reynolds Investing Co.—and when I say "the Reynolds" not the company but the directors or those in control of the corporation—provided that the payment of \$2,110,000 should be made in three installments—I think \$1,500,000 at the end of the year, on December 31, 1937, and the balance, \$392,756 on January 3, and \$205,330 a few days after January 3. The reason why it was put into installment payments subsequent to January 1, 1938, was because some of the holders of the stock had the tax situation in mind and for their own purpose preferred to be in cash until after the beginning of the year. That is the story as we have it and believe it to be.

The passing of the moneys was arranged through a firm in New York, since in receivership, dissolved, and concerning whose affairs the Stock Exchange had to take an active interest so as to protect the customers of the stock-exchange house. They guaranteed the contract with the Reynolds Investing Co., and the payments were made through them.

Their first check—and I mentioned \$1,500,000—their first check was to another stock-exchange house in New York that guaranteed the performance on the Reynolds' matter, and was \$1,499,434.06 for a certain number of shares, at \$2 a share. Of that \$1,499,434.06,